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Winter Energy Panel Presentation
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- 1) My remarks will build on some of the messages that were featured in Martha Wyrsh's presentation on behalf of Duke Energy Gas Transmission as part of the first panel at last week's State of the Natural Gas Infrastructure Conference.
- 2) As Martha noted last week, workers from all segments of the natural gas industry, including many who have been personally affected by the tragedy of the hurricanes, are putting in extraordinary efforts to restore the industry's ability to deliver energy to consumers throughout the United States. INGAA's member companies will continue doing all that is possible to maximize the natural gas deliverability available for the winter heating season, consistent with our obligation to provide non-discriminatory, open access service.
- 3) **Gas Supply/Peak Day** – First, with regard to gas supply, it is important to distinguish between aggregate estimates of anticipated gas supply and demand for the winter heating season and the challenges associated with meeting peak day demands.
 - a) On a peak day, it is assumed that market area storage will be drawn at its full capability and that flowing pipeline gas will be required to meet the demands of the market.
 - b) Therefore, the acknowledged fact that the market will be short some increment of flowing natural gas originating in the Gulf of Mexico region during this winter heating season (the consensus appears to be that this increment will be at least 2 bcf per day) is cause for concern about the ability to meet peak needs.
 - c) Of course there could be mitigating factors: peak day conditions may not occur simultaneously on the entirety of a pipeline's system; perhaps it will be possible to supplement flowing Gulf supply with supply area storage or with gas originating in other supply areas through interconnects with pipelines that are not experiencing coincidental peak loads.
 - d) Still, should pipelines experience peak loads for protracted periods, the ability to draw on supply area storage may be limited, particularly during the later winter months.
 - e) Finally, it is worth noting that the conservation initiatives undertaken by local distribution companies and supported by state PSCs can play a significant role in mitigating peak day issues caused by diminished flowing gas supplies.
- 4) **Pipeline Curtailment Provisions** – Second, a lot has changed since the last time that supply curtailment was an issue during the mid-to-late 1970s.
 - a) Due to the restructuring of the natural gas industry, interstate pipelines no longer are gas merchants and pipeline tariffs no longer address supply curtailment based on end-use priority.
 - b) Pipeline tariffs now address capacity allocation that may be necessitated by incidents that diminish a pipeline's ability to transport natural gas.

- c) Generally speaking, should capacity be reduced for some reason, the remaining capacity is allocated based on the category of service:
 - i) Firm transportation service is scheduled ahead of interruptible service; and
 - ii) Should it be necessary, firm transportation service between primary receipt and delivery points is scheduled ahead of service between secondary points.
 - d) These capacity allocation priorities do not “look behind the shipper” to consider how a shipper or its customers use the natural gas.
 - e) These tariff-based capacity allocation procedures do not take effect if there is a gas supply shortfall, i.e., a third party failing to deliver gas into the pipeline system.
 - f) Rather, supply shortfalls are dealt with through the nomination, confirmation and scheduling process.
 - g) Again, end-use is not a consideration. Regardless of the end-use, receipts and deliveries must be confirmed by point operators before a pipeline will provide transportation under a shipper’s contract.
- 5) **Customers are Responsible for Gas Supply** – Third, with the pipeline exit from the merchant function following Order No. 636, there no longer is a regulated aggregator of supply on behalf of wholesale customers and large end-users. These customers are responsible for their own supply arrangements.
- a) Therefore, while we can take some comfort in aggregate assessments that gas supply will be adequate for the winter, it is important that individual customers consult with their providers and confirm that such providers are in a position to meet their obligations.
 - b) Furthermore, some states have restructured retail gas markets such that some residential and commercial customers have opted for third party suppliers in lieu of the incumbent LDC providers. Once again, confirmation that suppliers are able to deliver natural gas to meet their obligations would be a prudent step.
- 6) **Gas Processing is a Critical Link** – Fourth, the hurricanes exposed the critical role that gas processors play in the supply chain. As we know, some processing has come back, other processing likely will be out of commission for the entire winter heating season and still other processors will come back, albeit with diminished capability to process gas to the same degree that existed pre-hurricanes.
- a) Without getting into great detail, in some cases the flooding of processing facilities has caused significant damage to the turbines that powered the expander units at such facilities. We have been told that the wait to get the turbines back on line could be between four and six months.
 - b) What does this mean? First, such processors will not be able to perform the “second cut” of gas processing needed to get the gas down to low hydrocarbon dewpoint levels. (The first cut can get it down to about 30 degrees hdp.) Second, the pressure of the gas at the outlet end of the processing plant where it enters the transmission pipeline will be reduced, thereby creating the need for more pipeline compression or, if compression is not available, reducing the capacity of the pipeline.
 - c) The industry is working on solutions to this dilemma.
 - i) In some cases, I’m told that the use of portable refrigeration units is being considered. This would allow for more complete removal of natural gas liquids and would alleviate some of the pressure reduction problem.
 - ii) In other cases, the industry is exploring the opportunities to blend incompletely processed gas with other gas that has been more thoroughly processed.

- iii) And, as we know, in other cases there have been facility modifications to “work around” disabled processing plants and transport natural gas to underutilizes capacity elsewhere in the region.
 - iv) In that regard, we thank the Commission for its prompt action last week on the applications by Discovery Pipeline for exemptions and waivers that made it possible to reroute gas supply that had been shut in due to damaged processing plants.
- d) The point here is that there remain significant challenges in addressing the gas processing situation.
 - i) A pipeline cannot facilitate greater blending by compelling someone to process its gas beyond what otherwise is required under its tariff. Any such “overprocessing” will need to occur pursuant to commercial arrangements between gas suppliers and processors.
 - ii) There will be limits to what can be accomplished by makeshift solutions at processing plants and by rerouting gas.
 - iii) At some point, suppliers, pipelines and customers may need to address the tolerance for accepting and delivering gas that will not be processed to the degree that it historically has been processed. Pipelines will work closely with customers to explore the options that customers have for maintaining gas quality as they manage their gas supply and storage.
- 7) **Pipelines Will be Compelled to Enforce Their Tariffs** – Fifth, as was noted in Martha Wyrsh’s presentation, there may be times this winter when pipelines will be compelled to enforce their tariffs to the letter in order to maintain system integrity and prevent customers from taking more gas than has been received by the pipeline on their behalf.
 - a) This will be particularly important should pipelines face peak day conditions (i.e., cold weather) when it will be important to safeguard the pipeline and its customers from heavy hydrocarbon dropout and from the chaos that could result if customers resort to “self help” remedies during a supply shortfall.
 - b) Some pipelines may choose to update their penalty provisions in order to maintain the price signals needed to discourage customers from helping themselves to someone else’s natural gas. (I shared with INGAA’s members the encouragement from Commissioner Brownell to make such filings, if needed.) In fact, Texas Eastern made such a filing on October 14.
- 8) **Do Not Forget the Long Term Big Picture** – Finally, all of us are intently focused on steps that can be taken in advance of the winter to maximize gas deliverability and to mitigate the cost to consumers and the economy. Still, it is important that we not forget the long-term issues that have been highlighted by the hurricanes’ effect on our Nation’s natural gas supply and infrastructure.
 - a) Some issues, such as access to federal lands onshore and offshore, are beyond the Commission’s direct influence.
 - b) Other issues associated with authorizing natural gas transmission and storage infrastructure and establishing rate and tariff policies that create the appropriate incentives for capital investment and for customer support for such infrastructure are squarely within the Commission’s sphere of influence.
 - c) There is not the time to delve into these issues today. We only ask that they not be forgotten. A robust natural gas infrastructure capable of delivering natural gas from

diverse sources of supply is of great value in bringing down natural gas commodity prices and mitigating natural gas price volatility.